STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	
	:	**Docket No. 07-0566**
	:	
Proposed General Increase in Rates	:	

SUMMARY OF POSITION

OF

THE BUILDING OWNERS AND MANAGERS ASSOCIATION OF CHICAGO

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I. INTRODUCTION / STATEMENT OF THE CASE

The Building Owners and Managers Association of Chicago ("BOMA") serves the interests of the commercial office building industry in the City of Chicago and is the nation's oldest local commercial office building organization. BOMA's members include 268 office, institutional, and governmental buildings, totaling over 112 million square feet of space, or approximately 82% of all the office square footage in the City of Chicago central business district, as well as 170 suppliers and professional firms that service those buildings. BOMA submitted the Direct, Supplemental Direct and Rebuttal testimony of Ralph Zarumba (BOMA Exhibits 1.0, 1.1, 1.2, 1.3 and 1.4; 3.0, 3.1, 3.2, 3.3 and 3.4; 5.0 and 5.1) and the Direct and Rebuttal testimony of Guy Sharfman (BOMA Exhibits 2.0, 2.1, 2.2 and 2.3; 4.0, 4.1, 4.2 and 4.3).

VII. NEW RIDERS

A. OVERVIEW

BOMA states that Commonwealth Edison Company's ("ComEd") Rider SMP proposal thrusts the State of Illinois into the national forefront on the evolving technological smart grid debate. BOMA points-out that the issues decided in this proceeding will have policy impacts not only on the distribution assets of ComEd, which are the subject of this proceeding, but also the transmission and generation functions, both regulated and unregulated, which functions account for the majority of electric service costs to customers. As electricity customers over 100 kW are or become exposed to market-based pricing and the risks inherent thereof, BOMA avers that it is absolutely

essential that customers be provided with information in order to make efficient decisions. BOMA provides conditional support for Rider SMP as a cost-recovery mechanism.

BOMA further states that Rider SMP shifts the risk of infrastructure investment from the distribution utility to the customer. Instead of investing in smart grid technology without the certainty of cost recovery, ComEd is essentially asking for permission instead of forgiveness. BOMA asks the Commission to grant this permission to shift such investment risk to customers only if the benefits to such investment inures to the benefit of ratepayers, given that ratepayers will be funding 100% of the smart grid investments. BOMA suggests the goals and requirements of a smart grid must include assuring customer unfettered access to information, the ability of customers to participate in PJM markets, and the maintenance of open system architecture and interoperability.

B. RIDER SMP

BOMA addressed Rider SMP in its Supplemental Direct and Rebuttal testimonies of Ralph Zarumba. (BOMA Ex. 3.0 – 3.4; 5.0 – 5.3). In testimony, BOMA provided qualified support to approving Rider SMP as a cost-recovery mechanism-- such qualified support hinging on the ability of Customers to access timely detailed information. BOMA also advocated for a collaborative process to assure the needs of the customers are properly provided, and addressed the critical need for ratepayers/customers and their authorized agents be provided with equal access to the information generated through upgraded technology. (*Id.*).

As sophisticated customers BOMA agrees with ComEd witness Crumrine and Constellation NewEnergy witness Fein that stakeholders share a common goal with smart

grid technology. (ComEd Ex. 30.0, 6:136-139; CNE Ex. 1.0, 4:58-64). BOMA expressly agrees with CUB witness Cohen that smart grid technology, to the extent such projects are approved, be accomplished in a way that guarantees consumers are the primary beneficiaries. (*See* CUB Ex. 3.0, 2:40-41).

In BOMA's view, many smart grid technologies are inevitable, especially in this information age. (BOMA Ex. 5.0, 17:335-336). BOMA understands some parties' concerns of by-passing the traditional ratemaking process, but states that if accomplished properly, Rider SMP provides a vehicle to implement customer-beneficial technologies sooner rather than later. (*Id*. at 337).

BOMA testified that taking into account customer benefits through access to timely, detailed information, the cost-benefit analysis of Rider SMP improves significantly (BOMA Ex. 3.0, 2:29-31). Neither the information provided currently nor the information proposed by ComEd to be provided to customers is sufficient. (BOMA Ex. 3.0 – 3.4; 5.0 – 5.3; BOMA In.Br. at 3-6). Clearly, BOMA opines, smart grid infrastructure becomes a critical resource in the Illinois energy infrastructure in providing information to customers to mitigate market risk. (*Id*. at 339-341).

Finally, BOMA provided detailed information as to specifics of AMI and demand response technology. In BOMA's view any metering and telemetry projects must fundamentally adhere to ComEd's hand-picked system operator's rules and requirements for customer participation in electric and grid markets. (*See* BOMA Ex. 5.0, 18-21:354-430). According to PJM load response rules, customers must have "real time" meters installed to participate in select markets. (BOMA Ex. 5.0, 19:371-373). PJM assists with the definition of "real-time," which means different time intervals to different parties.

(*See Inter alia, Id*., at 372). BOMA urges that to the extent the Commission approves specific Rider SMP projects, defining the concept of real-time must be made clear, and at a minimum adhere to PJM load response rules and requirements, which require customer data intervals increments in seconds, versus ComEd's suggested half-hour increments.

BOMA points out that metering and information system requirements currently exist for ComEd customers as codified in PJM rules. (*Id.* at 354 – 373). For example, PJM's responsive reserve market requires customer metering information at no less than a one minute scan surrounding a synchronized reserve event. (*Id*. at 354 – 364). The PJM demand response regulation market requires even more granularity. (*Id*. at 367). Analogous to internet information capabilities, metering and information systems, aside from being consistent with PJM rules, BOMA urges the Commission and ComEd anticipate future requirements for information before dictating rules. Without appropriate forethought, BOMA argues, an AMI and information access system could, instead of adding value, undermine ratepayers' ability to access beneficial system resource markets. (*Id*. at 377 – 381).

Finally, because of the lack of specificity or adherence to system operator rules, BOMA advocates a stakeholder process to address specific technical requirements as well as accomplish customer goals and objectives in this new information era. (*Id*.)

VIII. COST OF SERVICE AND ALLOCATION ISSUES

A. Overview

BOMA continues to advocate that the Commission recognize the utility of marginal cost principles, at least in setting tariff elements, such as ComEd's energy efficiency or Rider SMP surcharges. (BOMA Ex. 5.0: 4-7, 24-95). The current practice

of establishing tariffs based only upon average costs may distort price signals and result in system inefficiencies. (*Id*.) ComEd should be required to file both marginal and average cost studies in any request for increases in rates. (*Id*.)

B. Rate Impact Analysis

The rate impact analysis submitted by ComEd as part of their testimony simply compared current rates to proposed rates and fails to take into account the longer term trend in electric rate increases. (*See* Alongi/Jones Dir., ComEd. Ex. 12.0, 10:159-11:168; ComEd Ex. 12.2; ComEd. Ex. 32.0 (Cor.) 11:152-12:165). In contrast, BOMA provided definitive analyses that tracked the ComEd rate increases, on a bundled and unbundled basis, since 1997. (BOMA Exs. 1.0, 2.0, 2.2). Tracking historical rate increases, as in the BOMA analyses, is critical to allow for continuity in moderating rate increases and to protect against distorted rates and continued inappropriate increases for certain classes.

E. Interclass Allocation Issues

1. Across-the-Board Increase

BOMA urges the Commission recognize marginal cost principles; however, setting rates based on average cost principles at least provides some justification for setting rates. BOMA suggests that providing once again for an across the board rate increase is legally insubstantial and ignores sound rate-making principles. If the Commission employs rate mitigation relief for customers, the Commission should look at such mitigation from a historical context as shown in (un-rebutted) BOMA Ex. 2.2, before deviating from cost-based rates.

BOMA further recommends that the Commission adopt IIEC Witness Stowe's allocated cost of service study which makes various adjustments to Company's proposed study, including delineating between primary and secondary voltage. (IIEC Ex. 7.2). Given that many parties challenged the veracity of ComEd's allocated study, it would appear that IIEC's cost of service study is the most credible and should be utilized by the Commission. (IIEC Initial Brief at 81).

IX. Rate Design

C. Rate Design Issues

2. Non-Residential

a) Space-heating customers

BOMA has presented extensive evidence in these proceedings of the inordinate rate shock experienced by the former Rider 25. BOMA further advocates Rider 25 was unlawfully eliminated in ICC Docket No. 05-0597, and such elimination has never been justified on the basis of cost studies required to be provided by ComEd.

Most recently in ICC Docket No. 07-0166, the Commission, while expressing sympathy for the non-residential customers, declined to provide a remedy to the former Rider 25 customers primarily due to the lack of independent cost studies and verification of rate impacts incident to the elimination of Rider 25. (Order, Docket No. 07-0166) In its Final Order the Commission stated:

> …[T]he Commission is sensitive to rates that are discriminatory to a particular class of customer; if BOMA finds this issue to be persistent, then they should present a more complete analysis of this issue in ComEd's next rate case. (ICC Docket No. 07-0166, p. 28).

In this current proceeding BOMA provided significant evidence that the larger non-residential customers have received the largest rate increases since the advent of electric competition on a bundled and unbundled basis (*see* BOMA Ex. 2.2). In constructing this analysis, BOMA used ComEd's own posted rates, schedules and load profiles. (BOMA Ex. 2.0). Such analysis was not rebutted by any party.

Although BOMA has maintained and continues to maintain that it is ComEd and not BOMA that bears the statutory duty of justifying the elimination of Rider 25 (220 ILCS 5/16-103), BOMA has nonetheless undertaken in these proceedings to provide definitive analyses of the rate impacts experienced by the former Rider 25 customers and definitive evidence that, in ComEd's current and past rate design structures, former Rider 25 customers subsidize non space heating customers. It is within this context that BOMA requests the Commission conclusively provide relief for the Rider 25 customers.

By way of response, ComEd makes the surprising, and inaccurate conclusion that "...BOMA presents no evidence that the costs of providing distribution service are somehow different for nonresidential space heating customers." In fact, BOMA presented specific exhibits and testimony to show that regardless of how residential cost of service figures were broken out, the cost of service for space heating customers is always lower than for non-space heating customers. Such exhibits and testimony, which are largely undisputed, encompass the following primary categories:

(i) Historical Rate Increases:
Evidence compiled pursuant to the directives in the Final Order in Docket No. 07-0166, using ComEd bundled and unbundled rates and load profiles, clearly demonstrates that historical electric service rate increases for the larger customer classes have been much steeper than increases experienced by other ComEd customer classes. (BOMA Ex. 2.0, 6:81; Ex. 2.2). Furthermore, BOMA's analyses holds true for distribution rate increases, bundled rate

increases, and especially rate increases experienced by electric space heating customers. (*Id*.)

(ii) Lower Electric Space Heat Rates Are A Common Industry Practice: Assessing lower distribution charges to electric space heat customers relative to non-space heat customers is a common practice in the electric industry. (BOMA Ex. 4.0, 8:118-119). Many utilities across the country differentiate distribution charges between space heat and non-space heat customers within the same class. (*Id*. at 8:119-122; ComEd Ex. 45, 12:232-233). To demonstrate the common prevalence in the industry, ComEd's own rates provide such differentiation. (BOMA Ex. 4.0, 9: 124-133; Ex. 4.3). From 1999 through 2007, residential space heating customers paid between 30-34% less per kWh for ComEd delivery services than its non space heating counterparts. (*Id*.)

(iii) Residential Space Heat vs. Non-Space Heat Cost of Service Differentials: ComEd's embedded cost of service study provides for a significant deviation in the revenue requirements between the residential customer classes. (ComEd Ex. 13.1). In fact, residential space heating customers have a significantly lower cost of service on a per unit basis (both kWH and kW). (BOMA Cross Ex. 2).

(iv) Non-Residential Space Heat vs. Non-Space Heat Cost of Service Differentials: Given the differentials between ComEd's proposed annualized structure of determining revenue requirements, coupled with the rate design application of ComEd's proposed (and current) monthly billing of maximum kilowatt demand ("MKD"), the only reasonable inference that can be made is that cost of service differentials similarly exist in the non-residential customer classes and that electric space-heating customers subsidize non-space heating customers.

As a potential remedy BOMA proposed a specific solution where the former Rider 25 customers be provided a reduced economic incentive to leave the electric distribution system through the implementation of a two-block demand charge available during months when electric space-heating would normally be used by these buildings. (BOMA Ex. 5.0, 14:250-254, 309-310). Such specific potential solution was summarily rejected by ComEd. (ComEd Ex. 45.0, 13:239-250). BOMA's other recommended solution requests the Commission initiate a proceeding or re-hearing to address Rider 25 issues and remedies. (*See* BOMA Ex. 5.0, 16:309-314).

Notwithstanding the outstanding legal arguments currently in front of the Illinois Appellate Court appealing the Commission's decision in ICC Docket No. 05-0597, BOMA argues that relief from the disproportionate rate impacts imposed by ComEd's elimination of Rider 25, and ComEd's continuing reluctance to distinguish between non-residential space heat and non-space heat customers is well overdue. (Id.)

(i) Historical Rate Increases

BOMA witnesses Sharfman and Zarumba presented exhibits and testimony demonstrating that BOMA members (as customers in the larger non-residential customer classes) have received the largest rate increases compared to other classes since the advent of Illinois electric deregulation, and that rate increases incurred by Rider 25 customers have been the most severe. (*See, inter alia*, BOMA Exhibit 2.2). By contrast, residential customers have received much smaller rate increases, and residential space heat customers experienced even lower rate increases than residential non-space heat customers for the same timeframe. (BOMA Ex. 4.3).

BOMA also presented an analysis comparing historical rates of electric service paid by ComEd customers. (BOMA Ex. 2.0, 5:51-55). This analysis used ComEd's customer class profile data and historical ComEd rates. (*Id*. at 6:68-75). Using ComEd's load profiles, a weighted average price per kWh could be derived for each customer class for ComEd bundled and distribution rates from 1999 through 2007. Including historical price changes incurred by both electric space heat and non-space heat customers, a comparison of the percentage change in historical rate prices paid by customer class could be shown. (*Id*.). The result demonstrates the long-term rate increases per customer class and shows that historical electric service rate increases for the mid to large customer

classes have been much steeper than those experienced by other ComEd customer classes. (*Id*. at 6:76-81). This observation holds true for distribution rate increases, bundled rate increases, and especially rate increases experienced by electric space heating customers. (*Id*.). BOMA's analysis and methodology were not substantively challenged. (*See* ComEd Ex. 32, 20-22:346-380).

(a) *Distribution Rate Increases*

According to BOMA's analyses, non-residential space heat customers have received the largest increases in ComEd rates since the inception of electric deregulation, both in terms of distribution rates and bundled rates. (BOMA Corr. Ex. 2.2). For the larger non-residential customers, the percentage distribution rate increased precipitously to a high of almost 55% (for the former 800kW – 1000kW class). In contrast, residential customers received increases during the relevant time period of only 0.27% for single family non-space heating customers and 6.11% for single family space heating customers; Multi-family residential customers actually experienced decreases in distribution tariffs. (BOMA Corr. Ex. 1.0, 7:146-149).

Through its analyses, BOMA shows, on a purely distribution rate basis using ComEd's own published rates and load profiles, it is definitive and verifiable that BOMA members,[1] indeed all large customers, received large percentage increases in rates between 1999-2007.

BOMA's analysis, in addition to providing objective evidence to illustrate the rate increase effects on Rider 25 customers, provides the Commission significant perspective for evaluating other issues as well, such as rate mitigation proposals that deviate from

[1] BOMA member building range from 400 kW to over 10,000 kW, with the majority in the Large Load and Very Large Load classes. BOMA Ex. 1.0, 5:92-95.

cost of service. Using ComEd historical rates and class profiles, this type of analysis provides a verifiable methodology in which to analyze longer term rate impacts, in addition to simply looking at current proposed percentage increases. Finally, BOMA maintains its studies provide definitive proof confirming BOMA's historical claims for relief.

BOMA maintains that ComEd actually reinforces BOMA's analysis in ComEd Ex. 32.0, Table R 7. ComEd, in an attempt to dispute BOMA witness Sharfman's analysis and findings that BOMA customer classes incurred the largest distribution rate increases since deregulation began, ComEd shows consistent percentage increase numbers with respect to the larger non-residential customer classes. (ComEd Ex. 32.0, Table R 7). Curiously, ComEd did not provide any analysis for residential customer class percentage increases in its rebuttal.

(b) *Bundled Rate Increases*

Similar to BOMA's analysis of purely distribution rate increases, BOMA submitted its Corrected Exhibit 2.2 which shows analogous percentage increases in bundled rates for the period of 1999 to 2007. (BOMA Ex. Corr. 2.2). According to BOMA's exhibit which used ComEd's own rates and profiles, non-residential space heat customers incurred the largest increases, up to approximately 85% for the 1,000 – 3,000 kW class. (*Id*.) Also consistent with distribution percentage rate increases, residential customers received lower bundled rate increases for the same time period, between 15% and 28%. (*Id*.) This evidence is consistent with independent findings and evidence submitted by BOMA in Docket No. 07-0166. (Final Order 07-0166, page 18)

In response ComEd asserts that Mr. Sharfman's use of Rate BES-NRA – Basic Electric Service – Nonresidential (Annual) ("Rate BES-NRA") is inappropriate for conducting the bundled rate analysis because, they assert, the majority of customers residing in the 400 kW to 3,000 kW demand classes did not take service under this rate. (ComEd Ex. 32, 21:355 – 365). ComEd concludes, consistent with the Commission's statements in 07-0166, that the appropriate non-residential rate should have been Rate BES-H – Basic Electric Service – Hourly Energy Pricing ("Rate BES-H") (*Id*.).

In rebuttal, BOMA stated that its analysis measured the "increases in ComEd rates using the designated default service rate for each customer class…" (BOMA Ex. 4.0, 5:51 – 52). The use of Rate BES-NRA in the analyses of bundled rate increases for the 400 kW to 3,000 kW demand classes was appropriate since this rate would have automatically been assigned to customers residing in those classes had they not actively chosen an alternative rate or third party supply service. (*Id*.) Further, BOMA witness Sharfman illustrates in rebuttal testimony and associated BOMA Exhibit 4.1 that "the vast majority (approximately 86%) of customers residing in the 400 kW to 3,000 kW demand range that remained on ComEd supply service" (BOMA Ex. 4.0, 6:75 – 77) took service on Rate BES-NRA as opposed to Rate BES-H. Obviously, many customers were unsatisfied with the default rate and, at least those customers with reasonable credit or who were paying attention, migrated to alternative supply options. (*See, Id*. at 5:48-60).

ComEd's arguments that Rate BES-NRA is somehow not relevant, or that the default service rate for all customers not declared competitive doesn't approximate market value are duplicitous and contrary to exhaustive arguments made in the prior Commission proceedings. BOMA and many parties have asserted that the auction

structure would not be reasonable and not result in a decent approximation of market value, yet the ComEd proposed structure was approved, implemented and some resulting electric prices continue to remain in existence today and for at least another year. (*See* Final Order, 05-0159). In contrast, in ICC Docket No. 07-0166 BOMA's analysis was rejected primarily due to the inability to verify generation supply costs from customers who entered into different agreements at different times with different suppliers. (*See* Final Order, 07-0166) In addition to actually being the default rate for the relevant time period, ComEd's Rate BES-NRA is known, not subject to interpretation or dependent on independent variables. Besides disavowing its own Rate, ComEd did not dispute any of Mr. Sharfman's calculations, sources, or data, and did not provide any analyses, testimony, or exhibits depicting contradictory results or conclusions.

In sum, the evidence in this proceeding leads to the inescapable conclusion that BOMA members suffered rate shock on a bundled and unbundled basis.

(ii) Lower Space Heat Rates Are a Common Industry Practice

Many utilities across the country differentiate electric space heat customers from non-space heat customers. (BOMA Ex. 4.0, 8:119-123). To illustrate, BOMA identified a sampling of ten (10) utilities that provided lower charges in their distribution rates to electric space-heat customers. (*Id*.) ComEd identifies an eleventh utility that differentiates electric space heat.(ComEd Ex. 45.0, 12:232-233). All eleven utilities assess lower distribution charges to electric space heat customers relative to non-space heat customers. (*See* BOMA Ex. 4.0, 8:116-122).

Correspondingly, ComEd's own distribution rates reflect a lower cost of service for residential space heat customers. Residential single family space heat customers paid

on average 30% less per kWh for distribution than non-space customers between 1999 and 2007. (BOMA Ex. 4.0, 9:124-133; BOMA Ex. 4.3). Space heating customers in ComEd's residential multi family class paid roughly 34% less during this same time-frame. (*Id*.)

Currently, ComEd does not differentiate distribution rates between non-residential space heat and non-space heat customers. Given that residential space heat customers enjoy lower distribution rates than their counterparts and lower rates for space heat customers is a common practice in the industry, a reasonable inference can be made that cost differentials also exist in the non-residential customer classes. Further evidence supporting this assertion is provided in the revenue requirement section below.

(iii) Space Heat vs. Non-Space Heat Revenue Requirements

The ComEd embedded cost of service study clearly shows that distribution revenue requirements for residential space heat customers are lower than non-space heat customers. (ComEd Exhibit 13.1; Heintz TR, 1973:1-4).

The bridge between lower distribution revenue requirements and electric service rates was originally provided in ComEd Exhibit 12.2, attached to the direct panel testimony of Alongi/Jones and subsequent exhibits revising their original figures. From this ComEd exhibit, the lower per unit distribution costs for residential space heat customers are translated into lower proposed distribution rates. (ComEd Ex. 12.2).

BOMA Cross Exhibit 2 displays ComEd's own cost of service figures by category for residential space heat and non-space heat customers both on a per kWh unit and per kW unit basis. (BOMA Cross Ex. 2). This exhibit demonstrates that, regardless of how residential cost of service figures were broken out, the cost of service for space heat

customers is always lower relative to non-space heating customers. BOMA Cross Ex. 2, which takes its numbers directly from ComEd's allocated Cost of Service Study, shows the percentage cost differential between residential space heat customers versus non-space heat customers in virtually every category. Clearly, BOMA shows, there are major cost differentials between electric space heating and non space heating customers, and the costs are lower for electric space heating customers on a per kWh unit and per NCP kW unit basis. (*Id*.)

In Brief, BOMA states that it is inarguable that at least for residential customers, the cost of service varies in relation to whether the customer heats with electricity or natural gas. (BOMA Initial Brief at 13). A presumption, unrebutted BOMA contends, is that the same is true for non-residential customers. (*Id.)* This inference is supported not only on the body of evidence presented by both BOMA and ComEd witnesses, but also by the lack of any significant evidence on the Record to the contrary. (*Id*.)

(iv) Inter-Class Cross Subsidies

BOMA avers that the evidence presented in the Record logically infers that there likely exists a distribution embedded cost of service differential between space heat and non-space heat customers. Given that ComEd will not differentiate between these two customer types in proposing rate classes, it is highly likely that one of these customer types is subsidizing the distribution rate of the other.

This interclass subsidy is best illustrated with the following example: If two customers in the same rate class had annual identical non-coincident peak ("NCP") demands of 1,000 kW, all other revenue requirement allocations being equal, and the first customer peaks at 1,000 kW during one month and 500 kW in the remaining eleven, and

the second customer has 12 monthly peaks of 1,000 kW, ComEd's embedded cost of service study would determine an identical revenue requirement for both customers. (ComEd witness Heintz TR, 1978:13-22; 1979:1-12). Furthermore, under the above scenario and assuming both customers were in the same rate class, ComEd would collect a different level of revenue from the first customer than from the second. (ComEd witnesses Alongi-Jones TR, 2195:17-22; 2196:1-8). Therefore, while the allocated revenue requirement to each customer would be the same, the revenue collected to recover that revenue requirement would be different, resulting in an interclass subsidy.

Furthermore, if under the above scenario the first customer uses natural gas for heating and the second heats with electricity, the second customer would likely have a higher monthly Maximum Kilowatt Demand, a higher annual load factor, contribute more revenue to the utility and subsidize the natural gas heating customer. (*Id*. 2199-2201).

For its part, ComEd states that:

> The provision of a deep discount to nonresidential electric space heating customers is not cost-justified. It would be inappropriate to reinstate a subsidy that was eliminated years ago. (ComEd Ex. 45.0, 13:248-250).

ComEd provides little support for this assertion and has not performed an analysis justifying this conclusion. (Alongi-Jones TR, 2201:12-15). Given the evidence provided by BOMA in this proceeding, the subsidy is likely inapposite. ComEd admits to the possibility that space heat customers currently subsidize non-space heat customers. (*Id*. 2201:16-18).

(v.) BOMA's proposed solution and conclusion

ComEd's elimination of Rider 25 affects not only the former Rider 25 customers but potentially all other utility customers because of the potential of non-economic migration from electric to other fuel sources. (BOMA Ex. 5.0, 8-11:132-184). BOMA witness Zarumba demonstrated that a loss of space heating load to an alternative fuel would result in cost shifting to the other customers of ComEd (*Id*. at 169-178).

As one potential remedy, BOMA designed a distribution rate that utilized marginal cost principles for billing determinants to level the playing field for electric space heating customers. (*See* BOMA Ex. 5.0). This proposal, which was revenue neutral to ComEd, was rejected by ComEd and Staff as reverting away from the current established ICC cost allocation methodologies. However, similar to its testimony provided in the recent Energy Efficiency docket (ICC Docket No. 07-0540), BOMA demonstrated the customer benefits of setting rates based on marginal cost so as to provide customers with better price signals to make decisions (BOMA Ex. 5.0, 4-7:25-95). In addition to the relationship between energy efficiency and marginal cost principles, smart grid projects provide an excellent example of programs that would be enhanced by the implementation of marginal cost pricing. If the correct (marginal cost based) price signal is provided to the customer, the potential for achieving the optimal balance between supply and demand resources becomes achievable. (*Id.* at 80-86).

BOMA's rate design proposal attempted to resolve the Rider 25 issue but was rebuffed. Nevertheless, without a doubt, BOMA has provided the Commission with overwhelming evidence to support its contention that Rider 25 customers have received the largest long-term rate increases since the inception of competition, both on a bundled and unbundled bases, that there likely exists a cost of service differential for distribution

rates, that differentiation is common in the industry, and that to the extent interclass subsidies exist, the electric space heating customers are subsidizing their non-electric counterparts. For the foregoing reasons, rate relief for the space-heating customers is appropriate in this matter.

Respectfully submitted,

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